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Office of General Counsel
Washington, DC 20405

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December 18, 1992

Ms. Donna Searcy, Secretary
Federal Communications Commission
1919 M Street, N.W. - Room 222
Washington, DC 20554

Subject: Amendment of the Part 69 Allocation of General Support Faclility Costs; CC Docket No. 92-222

Dear Ms. Searcy:

Enclosed please find the original and nine copies of the General Services Administration's Reply Comments for filing in the above-referenced docket. Copies of this pleading have been served on all interested parties.

Sincerely,

Michael J. Ettner

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Senior Assistant General Counsel
Personal Property Division

Enclosures

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Interested Parties

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of	)	
	)	
Amendment of the Part 69 Allocation of General Support Facility Costs	)	CC Docket No. 92-222
	)	

REPLY COMMENTS OF THE GENERAL SERVICES ADMINISTRATION

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Amendment of the Part 69 Allocation of General Support Facility Costs	)	CC Docket No. 92-222

REPLY COMMENTS OF THE GENERAL SERVICES ADMINISTRATION

The General Services Administration ("GSA"), on behalf of the Federal Executive Agencies, hereby submits its Reply Comments in response to the Commission's Notice of Proposed Rulemaking ("NPRM"), FCC 92-440, released October 19, 1992 in CC Docket No. 92-222. This NPRM solicited comments and replies on the Part 69 allocation of general support facility ("GSF") costs.

I. INTRODUCTION

In comments filed on December 4, 1992 in this proceeding, GSA supported the Commission's proposal to include the subscriber line subcategory of cable and wire facilities in the allocation of GSF investment. GSA agreed with the Commission that existing Part 69 rules result in costs being under-allocated to the common line category and over-allocated to other access categories, including the special access category. GSA concluded that the development of competition in interstate access markets would be furthered by the Commission's proposal to allocate GSF costs in a more equitable manner.[1]

Comments were also filed by sixteen local exchange carriers ("LECs") or their representatives, three interexchange carriers ("IXC's), one competitive access provider ("CAP"), and one state commission.

In these Reply Comments, GSA will respond to the comments and proposals of these parties, and confirm its support of the Commission's proposal.

II. GSF COSTS SHOULD BE ALLOCATED TO ALL SERVICE CATEGORIES

All commenting LECs and their representatives supported the Commission's proposal.[2] The United States Telephone Association ("USTA") estimated the revenue requirement under-allocation to the common line category to be $1.1 billion based upon 1991 data.[3] USTA expressed its support for the Commission's proposal, and went on to state:

> As competition in the provision of exchange access services continues to expand, it is important that non-economic cost allocations

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[1]Comments of GSA, pp. 2-6.

[2]See, e.g., Comments of BellSouth Telecommunications, p. 3; U S West Communications, Inc., p. 3; United Telephone, p. 3.

[3]Comments of USTA, Attachment 1.

be eliminated except where necessary to achieve important public policy objectives. By modifying the allocation of GSF costs, the Commission will help facilitate more rational pricing for both special and switched access services without compromising any significant public interest goals.[4]

The Commission's proposal also received the support of AT&T, MCI and Sprint.[5] For Tier 1 carriers alone, AT&T estimated the under-allocation of costs to the common line category to be about a billion dollars.[6] AT&T states that the Commission's proposal "would further important public policy objectives, because it would permit more cost-based pricing of the LECs' Special Access and Traffic-Sensitive services (including Local Transport)."[7]

To its credit, MFS, the only commenting CAP, concedes that the Commission proposal "may be justified if the Commission determines that its proposed allocation will more closely reflect the hypothetical operation of market forces in a fully competitive market than does the present rule."[8] Since MFS also acknowledges that all allocations of common costs are inherently arbitrary,[9] and that it incurs comparable overhead costs as a competitor to the

[4]Comments of USTA, pp. 2-3, (footnote deleted).

[5]Comments of American Telephone and Telegraph Company ("AT&T"), p. 3; MCI Telecommunications Corporation ("MCI"), p. 2; Sprint Communications Co. ("Sprint"), p. 1.

[6]Comments of AT&T, p. 4.

[7]Id.

[8]Comments of MFS Communications, Inc. ("MFS"), p. 5.

[9]Id., p. 3.

LECs,[10] one can conclude that the Commission's proposal is consistent with the principles set forth by MFS.

The only commenting party opposing the Commission's proposal is the Public Service Commission of the District of Columbia ("D.C. PSC"). The D.C. PSC opposes the proposal because "it would increase the subscriber line charge for District of Columbia ratepayers and could have a detrimental impact on universal service in the District of Columbia."[11] The D.C. PSC contends that numerous rule changes instituted by the FCC have dramatically increased rates for telephone service in the District of Columbia, and that "there is a direct correlation between the rule changes and the significant decline in telephone penetration rates in recent years."[12]

Indeed, penetration rate reports have varied greatly for the District of Columbia ("D.C."). In March, 1985 the D.C. penetration rate was 91.6 percent. Despite the introduction of the residential and single line business monthly subscriber line charge ("SLC") in June, 1985, the penetration rate rose to 95.6 percent in November, 1985 and 96.1 percent in November, 1988. Subsequently, the D.C. penetration rate fell to 89.7 percent in July, 1990, before rising again to 90.7 percent in July, 1992.[13]

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[10] Id., p. 5.

[11] Comments of D.C. PSC, p. 2.

[12] Id.

[13] Report on "Telephone Subscribership in the U.S." released by the FCC on December 4, 1992.

The volatility of penetration rates in the District of Columbia appears to be a local anomaly, however. On a national basis, penetration reports have been very consistent. As Attachment A to these Reply Comments shows, the national penetration rate has risen steadily from 91.4 percent in November, 1983 to 93.8 percent in July, 1992. During this period, as also shown on Attachment A, the residential SLC was implemented and increased to its present maximum of $3.50. In fact, studies performed by FCC economist Dr. Alexander Belinfante tend to support the concept that, contrary to the D.C. PSC's allegation, increases to the SLC have a direct correlation to increases in penetration. Dr. Belinfante writes the following in discussing pricing factors affecting penetration:

> As in my previous study, the installation charge is the most significant price variable. As that study predicted, the toll price index is also significant, while the basic service charge is less significant. This tends to support the view that increasing the subscriber line charge (SLC) and reducing toll rates has improved telephone penetration by decreasing involuntary disconnects (through lower toll rates) more than new connects have been discouraged (by the higher SLC).[14]

The historical record thus clearly demonstrates that universal service is not threatened by the Commission's proposal. In fact, as AT&T points out, only $17 million of the billion dollar change in revenue requirements will even be recoverable from existing residence and single line business SLC's.[15]

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[14] "A Dynamic Analysis of Telephone Penetration," paper presented at the Industry Forum on Telecommunications Demand Analysis with Dynamic Regulation, April 23, 1990.

[15] Comments of AT&T, p. 7.

III. THE CHANGE IN GSF COST ALLOCATION SHOULD BE REFLECTED IN RATES EFFECTIVE JULY 1, 1993

The proposed change in GSF cost allocation must be reflected in LEC rates for its benefits to be realized, of course. Most LECs propose that the changes in cost be treated as exogenous factors for price cap purposes.[16] GSA agrees that this approach will provide a relatively simple and straightforward procedure for implementing the Commission's proposal.

USTA, et al., urge the Commission to adopt its proposal expeditiously so that the LECs can incorporate the resulting cost changes in their annual access filings in April 1993.[17] In light of the record in this proceeding, GSA agrees that prompt Commission action is appropriate in order to reflect the Commission's proposal in LEC rates to be effective July 1, 1993.

IV. THE COMMISSION SHOULD INITIATE A PROCEEDING TO ELIMINATE THE CAP ON SLC'S.

NYNEX proposes that the LECs be allowed to impose a $.35 surcharge on residential and single line business SLCs. Nynex points out that "the current $3.50 SLC has been in effect since April 1, 1989 even though inflation and local competition have significantly increased over the last four years."[18] NYNEX goes

[16]See, e.g. Comments of Ameritech Operating Companies, p. 3; Bell Atlantic, p. 2; Pacific Bell and Nevada Bell, 3.

[17]See Comments of USTA, p. 10; the National Exchange Carrier Association, Inc., pp. 3-4; GTE Service Corporation, p. 3; John Staurulakis, Inc., p. 2.

[18]Comments of the NYNEX Telephone Companies ("NYNEX"), p. 4.

on to recommend that the Commission initiate a proceeding to restructure access charges, and consider eliminating or substantially increasing the SLC paid by residence and single line business customers.[19] An increase in the SLC cap is also suggested by Southwestern, Rochester and Cincinnati.[20]

GSA agrees with these LECs that the time has come to revisit the existing SLC cap. It is economically inefficient to recover any fixed common line costs through usage sensitive common line rates. The existing SLC cap on residential and single line business rates was established nearly a decade ago to ensure the preservation of universal service. As AT&T states, "it is now well established, according to data released by the Commission, that telephone subscribership in the United States has not been adversely affected due to the introduction of, or increases in, the SLC."[21] In fact, as discussed above, further increases in the SLC, offset by reductions in usage sensitive rates, may well help to increase penetration rates and enhance the Commission's universal service objectives. At the same time, the elimination of inefficient LEC prices will limit the potential for uneconomic bypass of the public switched network.

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[19] Id., pp. 5-6.

[20] Comments of Southwestern Bell Telephone Company ("Southwestern"), p. 8; Rochester Telephone Company ("Rochester"), pp. 6-7; Cincinnati Bell Telephone ("Cincinnati"), p. 4.

[21] Comments of AT&T, pp. 6-7.

For all of these reasons, the Commission should move to initiate a proceeding proposing the elimination of the cap on residential and single line business SLCs.

IV. *CONCLUSION*

As the agency vested with the responsibility for acquiring telecommunications services for use of the Federal Executive Agencies, GSA supports the Commission's efforts to bring full and open competition to the interstate transport market. The record in this proceeding demonstrates that this goal will be furthered by Commission's proposal to amend Part 69 to allocate general support facility costs equitably among all service categories. The Commission should, therefore, revise its rules in this respect in an expeditious manner. The Commission should also initiate a proceeding proposing the elimination of the caps on residential and single line business subscriber line charges.

Respectfully submitted,

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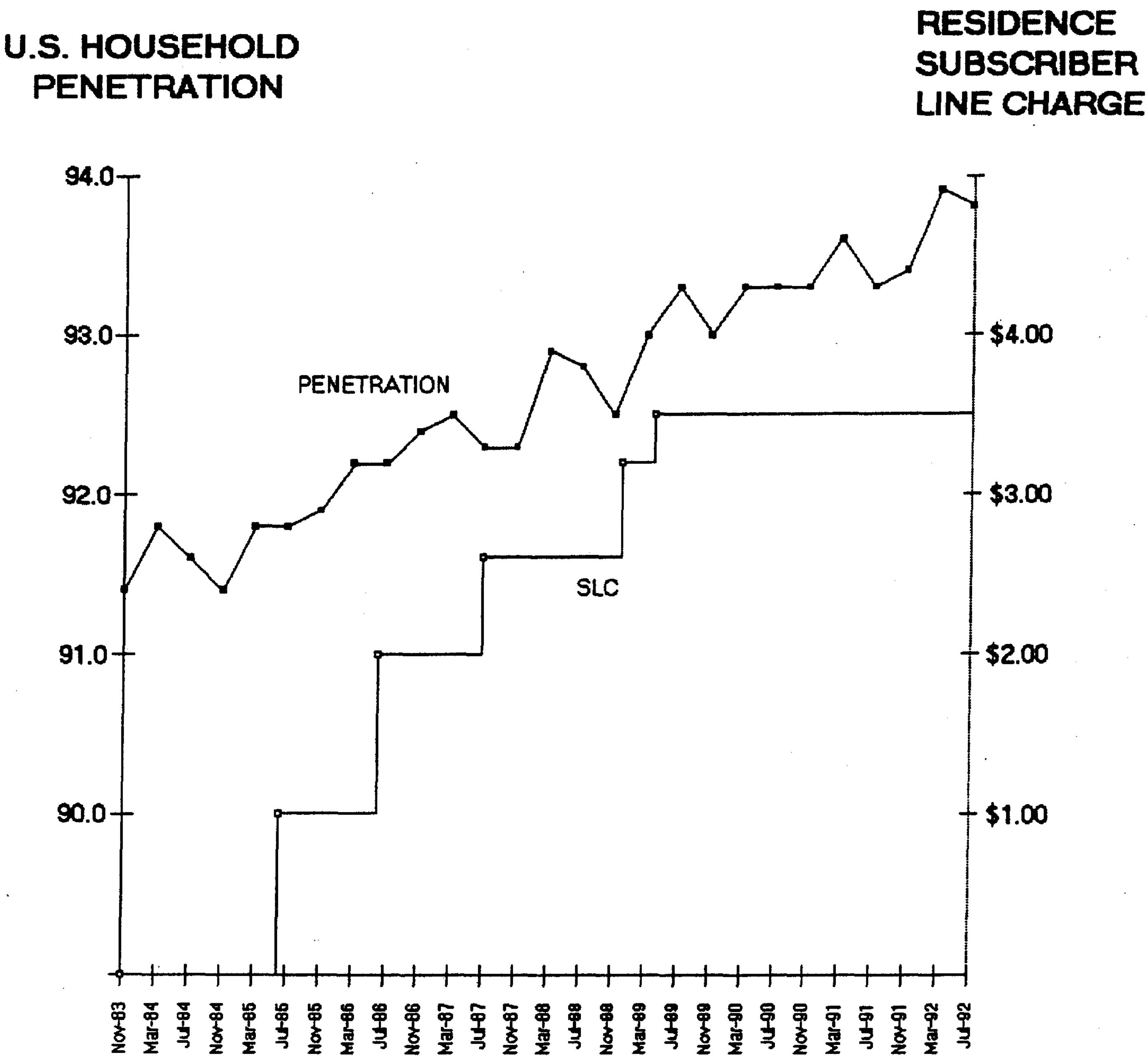
December 18, 1992

Attachment A

PENETRATION vs SLC



SOURCE: REPORT ON TELEPHONE SUBSCRIBERSHIP IN THE U.S., NOVEMBER 1992

CERTIFICATE OF SERVICE

I, MICHAEL J. ETTNER, do hereby certify that copies of the foregoing "Reply Comments of the General Services Administration" were served this 18th day of December, 1992, by postage paid or hand delivery (indicated below by asterisks) to the following parties:

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